

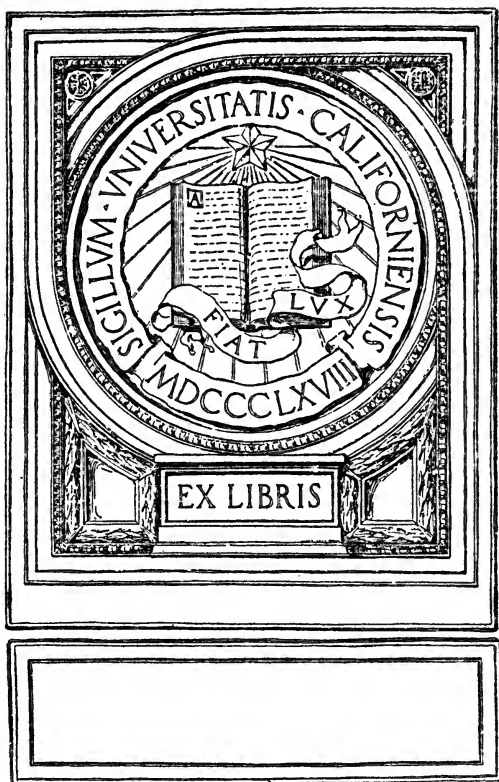
The Influence of Accountants' Certificates on Commercial Credit

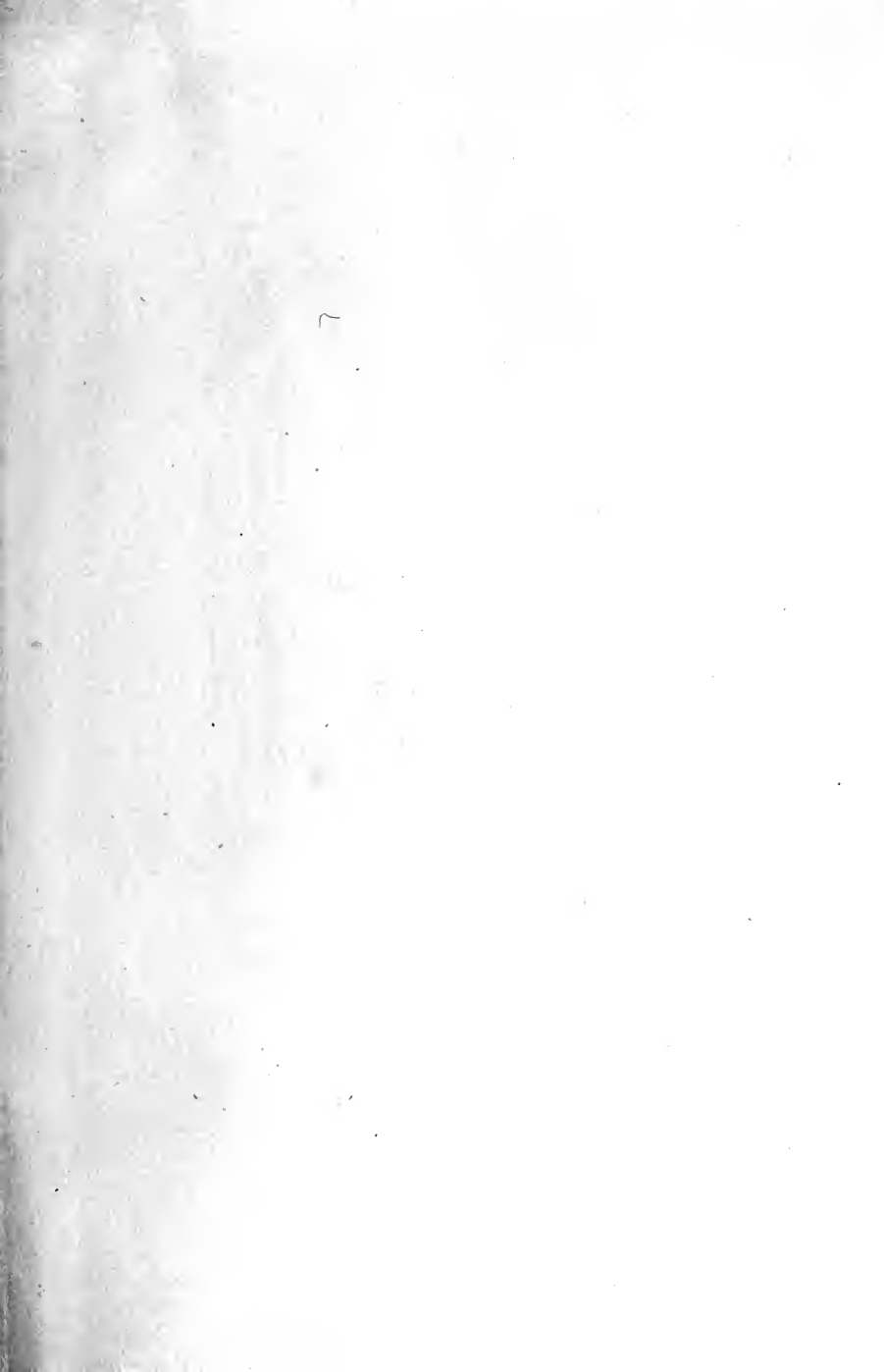
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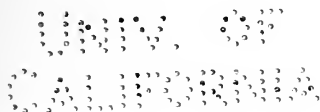
The Influence of Accountants' Certificates on Commercial Credit

EDITED BY

A. P. RICHARDSON

Secretary, The American Association of Public Accountants

Price 50 Cents



THE AMERICAN ASSOCIATION
OF PUBLIC ACCOUNTANTS
55 LIBERTY STREET, NEW YORK

1913

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TO THE
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INTRODUCTORY NOTE

The contents of this book constitute a most interesting addition to the literature concerning the relations between bankers, note brokers and borrowers in transactions based upon what is technically known as commercial paper.

The opinions of more than eight hundred bankers, representing banks in all parts of the United States, are given; and the views expressed are arranged under various headings and sub-headings which make the information readily available.

A report submitted by a committee of the American Bankers' Association in 1908 discussed at length the desirability of accountants' certification of statements presented to banks by borrowers or by note brokers, and the substance of this report was to the effect that such certification should be encouraged and wherever possible made obligatory.

Five years have passed since the date of that report, and in that time a considerable change has taken place in the dispensing of credit. More and more the tendency spreads to give preference to borrowers' statements which are supported by accountants' certificates.

The American Association of Public Accountants, recognizing the rapidity of the change, recently appointed a committee to ascertain bankers' opinions at the present time, and the result of that investigation is embodied in this volume.

An overwhelming majority of replies will be found in favor of the idea of certification of all statements submitted by borrowers; and bankers, in many cases, go further than a mere academic approval of such a proposition and give suggestions and recommendations for the realization of the plan.

Letters from six of the leading bankers of the country are given over their own signatures. In other cases the names of the bankers and banks are not published, but the town or city in which the bank is situated is given.

In an early part of the book will be found the entire expression of opinion which is opposed to the idea of certification by accountants, and the reader can see at a glance the character of the opposition and the reasons alleged by those few bankers who do not favor the idea.

Then follows a series of extracts from replies received from bankers in all parts of the country. This in turn is followed by the replies of bankers to specific questions, the most important of which, from the public point of view, is the actual effect which certified statements have upon the terms, rates and general acceptability of commercial paper.

At the close of the book will be found several suggestions by bankers for the further betterment of credit conditions.

In publishing this symposium of bankers' opinions, the American Association of Public Accountants is animated by a desire to hasten public recognition of the value which in modern banking practice is attached to the certified statement of financial condition.

A. P. R.

[*New York, August 1, 1913.*]

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The Influence of Accountants' Certificates on Commercial Credit

CHAPTER I

Modern business conditions have rendered imperative a thorough change in the system and a vast increase in the machinery for the extension of credit. The exigencies of the present financial and commercial conditions are such that credit, not gold, is the life of trade. Cash or cash transactions have taken a secondary place in the business world; and, accordingly, it is with the question of credit facilities that the man of business or finance is most closely concerned.

In banking, more than in any other department of activity, the adjustment of credit is vital, and anything which tends to better the conditions or to perfect the system is of direct value to the banker and his client and indirectly to the advantage of stockholder and depositor.

For many years efforts have been made to

increase the protection accorded bankers in their extension of credits, and various excellent reports and suggestions have been made dealing with proposed improvements; but there has been a regrettable lack of action.

One of the most important phases of bank credits relates to the verification of the statements submitted by borrowers in support of their so-called "commercial paper," whether such paper be submitted direct or through the agency of a note broker.

The American Bankers' Association, through one of its committees, has given serious consideration to the question of borrowers' statements, and several trenchant recommendations have been made, which, if acted upon, would lead to the protection of the banker, the assistance of the borrower and the greater stability of trade. But, unfortunately, the keenness of competition among bankers has precluded the enforcement of such regulations as have been suggested; and fear of offending customers or of diverting their business to other banks has been effective in perpetuating a system, or lack of system, which is universally recognized as undesirable.

The question of verification is one that appeals strongly also to the public accountant, and the American Association of Public Accountants, the national organization of the profession, lately appointed a committee to make investigations, to

canvass the leading bankers of the country, and to report upon the result of its inquiries.

The committee addressed three thousand four hundred bankers whose institutions have a capital of \$100,000 or over, in all States of the Union, and propounded certain questions to which replies were solicited. Accompanying this inquiry was a letter explaining its objects.

The letter and the blank form circulated among the bankers follow:

Circular Letter

DEAR SIR:

The American Association of Public Accountants invites your personal consideration of the question of the certification of borrowers' statements by public accountants. With the idea of eliciting the opinion of the leading bankers of the country upon the subject, this association is addressing a large number of bank presidents, and earnestly requests that the questions enclosed herewith be answered.

It will be within your recollection that the Committee on Credit Information of the American Bankers' Association, in its report of 1908, strongly endorsed the idea of requiring independent certification of borrowers' statements and statements presented by note brokers. The substance of the report is summed up in the following extract.

"They (the committee) respectfully urge that every member exert his influence to have all paper purchased from note brokers presented with the accompanying statements

audited by certified public accountants and note brokers' certificates of paper outstanding at the time of purchase. . . . We would ask that the association, by the adoption of this report, recommend that its members, in purchasing commercial paper from note brokers, give preference to such names as furnish accompanying statements audited by certified public accountants and certificates signed by the note brokers of the amount of paper outstanding at the time of purchase."

In an address delivered before the New Jersey State Bankers' Association in 1905, James G. Cannon made the following statement in regard to the question of compulsory certification:

"The trend of every science is toward exactness. The advance to this point justifies a further step in advance. . . . How shall this next step be taken? By establishing the custom of requiring statements of financial condition to bear joint certificates of a certified public accountant and of an engineer.

"The certified public accountant has come into prominence within the past ten years, and his profession has the guarantee of law in most States of the Union. He concerns himself with the books of account, and records and statements prepared by him have the support of such books, and the banker has the sense of security due to the disinterested and impartial nature of the accountant's position. He may be called the referee in accountancy and the expert on cash valuations.

"In brief, our next step is in the direction of accuracy. This is to be accomplished by having statements subjected

to searching analysis certified by certified public accountants and engineers, and then credit will be extended strictly on the merit of the individual applying for loans."

David R. Forgan, President of the National City Bank, Chicago, speaking before the American Association of Public Accountants, in September, 1912, dealt with the relations between bankers and accountants. He said in part:

"In self-protection against . . . deception, bankers have, within recent years, begun to demand, or at least encourage, the practice of having statements for credit certified by public accountants. Only keen competition prevents this practice from becoming universal, as it ought to be."

It is recognized that, as pointed out by Mr. Forgan, competition is preventing a strict adherence to the recommendations of the American Bankers' Association that borrowers' statements should be certified by certified public accountants, but it is the desire of the American Association of Public Accountants to ascertain to what extent the practice of requiring independent certification is increasing or decreasing. Accordingly, you are requested to answer the questions enclosed herewith and address your reply to A. P. Richardson, Secretary, 55 Liberty Street, New York.

Yours very truly,

(Signed) A. P. RICHARDSON,

Secretary.

*Inquiry Blank*THE AMERICAN ASSOCIATION OF PUBLIC
ACCOUNTANTS

SPECIAL COMMITTEE ON CREDIT INFORMATION

What is the attitude of your bank in regard to requiring that statements submitted by borrowers or note brokers shall be certified by public accountants?

Where this is required how is it regarded by the borrowers of your bank?

To what extent do you find that borrowers voluntarily submit certified statements?

Other things being equal, do certified statements have a favorable effect upon the terms and interest rates granted by your bank to borrowers?

Do you notice an increase in the proportion of borrowers' statements certified by public accountants?

On the basis of the foregoing questions will you be kind enough to give us the benefit of your personal opinion on the general question of certification of borrowers' statements?

(Signed)

President.

.....

Address reply to

A. P. Richardson, Secretary,
55 Liberty Street,
New York.

CHAPTER II

No better indication of the interest taken by bankers in this subject can be given than the ready response which this circular and set of questions received. Approximately eight hundred and fifty of the bankers addressed replied to the questions, and in many cases did not content themselves with merely formal sets of replies, but gave extended expression of their opinions.

Replies received have been classified under five headings, *Strongly in Favor*, *Favorable*, *Opposed*, *Strongly Opposed*, and those by bank presidents who from lack of experience in this matter could not express an opinion.

This classification of replies gives the following result:

<i>Strongly in Favor</i>	121
<i>Favorable</i>	501
<i>Opposed</i>	15
<i>Strongly Opposed</i>	5
<i>Non-committal</i>	202

It will be seen by a glance at the foregoing statement that the amount of opposition to a

proposal for the requirement of certification of borrowers' statements is so small as to be inconsiderable, but in order that the nature of the opposition may be clearly seen the following extracts from the replies of opponents are given:

"Nothing needed, thank you."

"I think it's a proposition to magnify your own job."

"As a rule borrowers say they can get any statement they choose to make, certified, if they pay the charges."

The three foregoing are from banks situated in small cities, and are evidently written under the impression that the inquirer was asking for business.

Of a better informed character is a letter from a bank of some importance in the Middle West. In this the President states, in part:

"We have felt for many years that the practice of loaning large sums of money purely upon the strength of a statement furnished by borrowers, without any independent verification or corroboration, is fraught with more or less danger; and the frequency with which failures occur, disclosing utter misrepresentation of facts in statements previously put out, tends to prove the correctness of this view of the matter. On the other hand, frequent single failures are taking place, where the liabilities run into the millions, of firms and corporations whose statements have been audited and verified by so-called public accountants, while the actual condition of affairs bore no resemblance to the picture painted by the

statement and the auditors' verification thereof. We, therefore, feel that until audit companies are required to have a certain fixed capital, and are held personally liable in a substantial sum for losses incurred by reason of their misrepresentation of facts, and are required to give bond to cover such losses, the audit will be of little practical use. In the meantime, bankers and lenders of money will continue to grope around in the dark and make their own investigations, as they are doing now."

Another banker in the Middle West writes:

"I believe that the business you are in is a legitimate one, and one that ought to bring forth good results, if in the hands of men of character and integrity. . . .

"The most money this bank has ever lost has been in loans made on the basis of public accountant statements, or parties who claim to be public accountants or expert accountants. Within the last ten years we have suffered greatly by loans on these statements. In one instance we got about 33 cents on the dollar. . . .

"It seems to me if this public accountant business could be placed upon some sort of legal basis, with penalties attached for false and padded statements, it could be made of great benefit to banks, but many of these statements have been palmed off on the public as being made conscientiously, when in fact it appears that they were made only for the purpose of strengthening the parties' credit, when they really did not deserve any sort of high rating, and were not even worthy of ordinary credit.

"We are very highly prejudiced against these methods of

loaning money, and would not loan money to anyone on a statement made by an expert or public accountant, where the parties are not known to us."

The foregoing excerpts from letters constitute the only strong opposition to the idea of requiring certification of borrowers' statements, and it will have been noted that of these the only two worthy of consideration are written by men who have been unfortunate in their experience with one or more public accountants in their vicinity.

Under the heading *Opposed*, the opposition seems to be due generally to failure to understand the purpose of the questions.

The following extracts will indicate the substance of the arguments against the plan:

"We think we know the value better than you."

"We know our borrowers, and their moral risk is what we consider."

"Our experience has been that such statements afford us but little protection, . . . If these certificates could be relied upon as correct or true, notwithstanding the balance sheet of the borrower, they could more safely be relied upon."

"We might place more credence on the statement of a customer certified to by a C. P. A., but prefer our own examination to quite a few statements from C. P. A. that have come to our notice."

"We have a satisfactory system for the consideration of our borrowers' statements. We are not interested in the question of certification by public accountants."

"Not favorable."

"We have no use for anything of the kind."

"We believe it to be a good idea where we are sure of the accountants' honesty."

"In a place the size of ———, would not think a certified statement by accountants would be of more value than would one of the people's own make, as they are personally known, and do not think the certification of the public accountant would add security to it."

"In the case of large corporations or firms who are heavy borrowers it would undoubtedly be very effective, but in the majority of transactions in a community like this it would, in my opinion, be entirely impracticable."

"Do not think it necessary where your trade is local and the character of the borrower is known."

"No objection, but it is merely a matter of bookkeeping. Statements cannot validate inventories or prices at which goods are held, nor the character of the persons in business, which is more important than any statement, as we have found in the past."

"Not interested."

"It has some advantages, but is not of vital importance."

"Nothing doing in this territory."

The opposition contained in the foregoing extracts from letters, as has been pointed out, is due chiefly to failure to appreciate the intent of the question asked or to a doubt in the mind of the banker as to the trustworthiness of the public accountants with whom he has to deal.

The extracts have been given at some length and no letters of opponents have been omitted, so that the opposition may be seen at the outset and its value properly estimated.

Under the heading, *Non-committal*, a large number of replies must be classified. These replies are almost identical in phraseology. They are from banks whose activities are confined to small towns or cities and whose loans are made solely to local business men. They universally express themselves as unable to form an opinion because they are not in the market for commercial paper and have no dealings with note brokers. More than one half of them, however, state that on general principles they would be inclined to favor compulsory certification of borrowers' statements if it could be made universal, but qualify this by saying that they do not speak from experience.

CHAPTER III

An overwhelming majority of the replies in which opinions are expressed is in favor of requiring borrowers and note brokers submitting commercial paper to present certified statements of financial condition. It has not been considered judicious to specify the names of bankers whose opinions are given in the following pages, but in order that there may be no question as to the influence and standing of those members of the banking community who are in favor of this proposition several prominent bank presidents have consented to give their views over their own names, and these signed expressions of opinion may fitly take the lead in the presentation of the affirmative side of the proposition.

Particular attention is drawn to the force and unanimity of the following letters:

THE NATIONAL CITY BANK

OF CHICAGO

PRESIDENT'S OFFICE.

JUNE 2, 1913.

*Mr. A. P. Richardson, Secretary,
The American Association of Public Accountants,
55 Liberty Street, New York City.*

DEAR SIR:—

Yours of the 29th ultimo is received: When we consider that more than half of the loans made by commercial banks are based on the statements of the borrowers, and that the competition between banks themselves, and between banks and commercial paper brokers, is, in ordinary times, very keen, I should think it would be difficult to find a banker who does not approve of the efforts your Association is making to have all borrowers' statements certified by public accountants. This is one of those happy cases which combines with the furtherance of your own interests as accountants the purifying and strengthening of the entire system of credits through which nearly all modern business is transacted.

I hope, therefore, you will continue your good work until it is as common to have borrowers' statements properly certified as it is now to have a title examined before purchasing property.

Yours very truly,

(Signed) DAVID R. FORGAN.

THE FOURTH NATIONAL BANK

OF THE CITY OF NEW YORK

MAY 29, 1913.

*Mr. A. P. Richardson, Secretary,
American Association of Public Accountants,
55 Liberty Street, New York City.*

DEAR SIR:—

Referring to your letter of February 20th, respecting the certification of borrowers' statements by public accountants, we strongly advocate and prefer to buy the paper of those concerns whose accounts are audited by established firms of accountants.

We find that where this is required the suggestion is generally well accepted and acted upon.

It is difficult to state to what extent borrowers voluntarily submit certified statements, but a large number of statements received are certified, and the percentage is constantly increasing.

The matter of certification or non-certification has not reached a point with us where it affects the rates charged.

The question of increase or decrease in the proportion of certified statements of borrowers is covered, we think, by our statement that the percentage is constantly increasing.

It is our belief that the time is not far distant when the demand for an audit of all statements by certified public accountants of established reputation will be practically universal.

Very truly yours,
(Signed) J. G. CANNON,
President.

THE NATIONAL CITY BANK

OF NEW YORK

NEW YORK, March 6, 1918.

[COPY]

THE AMERICAN ASSOCIATION OF PUBLIC ACCOUNTANTS,
SPECIAL COMMITTEE ON CREDIT
INFORMATION

Inquiry Blank

No. 1899.

Q. What is the attitude of your bank in regard to requiring that statements submitted by borrowers or note brokers shall be certified by public accountants?

A. We prefer, in all cases, to have certified statements, but only insist upon it in cases where we feel the indebtedness is becoming disproportionately heavy or we have reason to suspect some irregularity. In all such cases we do insist.

Q. Where this is required how is it regarded by the borrowers of your bank?

A. As a rule, the borrowers are willing to submit their business to audit and furnish certified statements when we insist upon it.

Q. To what extent do you find that borrowers voluntarily submit certified statements?

A. Not to any considerable extent, but the practice is increasing. I should say probably not more than 5% of the whole furnish certified statements voluntarily.

Q. Other things being equal, do certified statements have a favorable effect upon the terms and interest rates granted by your bank to borrowers?

A. Certified statements, where they exhibit sound and solvent conditions, have a favorable effect upon the amount of loans granted to borrowers, but have no effect on interest rates. We do not lend in any case unless we believe the borrower is good, and being good he is entitled to the same rate that any other good borrower would receive, whether furnishing a certified statement or not.

Q. Do you notice an increase or decrease in the proportion of borrowers' statements certified by public accountants?

A. In our observation, the proportion of borrowers' statements certified by public accountants is increasing slowly. We believe the practice eventually will become nearly universal.

Q. On the basis of the foregoing questions, will you be kind enough to give us the benefit of your personal opinion on the general question of certification of borrowers' statements?

A. Our opinion of the general question of certification of statements is that their usefulness and reliability have, in too many cases, been brought into question by reason either of inefficient, incompetent or careless work on the part of accountants. Dispensers of credit have often been deceived in this way, and it should be the aim of members of your association to be much more careful, not only in investigation but in general efficiency and thoroughness, than has been the case heretofore.

(Signed) Jos. T. TALBERT,
Vice-President.

MERCANTILE TRUST COMPANY

SAINT LOUIS

JUNE 3, 1913.

*Mr. A. P. Richardson, Secretary,
American Association of Public Accountants,
55 Liberty Street, New York City.*

DEAR SIR:—

I am most heartily in favor of all firms and corporations that borrow without collateral filing with banks and trust companies from which they borrow statements of their business certified to by public accountants.

We have several customers of that kind now, and not only feel more comfortable with their business but actually do give them a larger ratio of credit and better rate of discount by reason of the fact that we know their statement is unquestionably true.

Every bank and trust company of the country is obliged to undergo expert examination at least once (and in many instances three times) each year. Their officers are obliged to make sworn affidavit of the correctness of the statement, the banking laws making it a penal offense if they swear falsely.

Why should not the banking fraternity not only expect, but exact and demand, the same examination of those to whom they lend their money without collateral?

I hope you will push the good work until it becomes the universal custom of all borrowers, large or small, to have their books and accounts examined and certified to by public accountants.

Yours respectfully,

(Signed) FESTUS J. WADE,

President.

THE FIRST NATIONAL BANK

CHICAGO

JUNE 4, 1913.

*Mr. A. P. Richardson, Secretary,
American Association of Public Accountants,
55 Liberty Street, New York City.*

DEAR SIR:—

I have your favor of 29th ultimo.

You can use the following as a statement from me in regard to the desirability of having certified statements from borrowers:

The movement among bankers to encourage, if not demand, that statements made by borrowers as a basis of credit should be verified by an audit of their books and certified by public accountants has my heartiest sympathy and support.

No longer is it regarded as discreditable, but the reverse, to furnish such statements. Many of our best borrowers voluntarily supply them, and their number is constantly increasing. For their own protection and satisfaction they regard an annual audit necessary, and the certified balance sheet furnished their bankers becomes a source of pride to them.

Very truly yours,

(Signed) JAS. B. FORGAN.

THE NORTHWESTERN NATIONAL BANK

MINNEAPOLIS

JUNE 6th, 1913.

Mr. A. P. Richardson, Secretary,

The American Association of Public Accountants,

55 Liberty Street, New York, N. Y.

DEAR SIR:—

Replying to your favor of May 29th, will say that I am a firm believer in the audit by certified public accountants of books and business of borrowers, whether paper is taken direct by the bank or through brokers. Of course, this check is not absolute, but it is an additional safeguard

to the lenders of money. This practice is generally followed here with very general satisfaction.

Yours very truly,

(Signed) E. W. DECKER,

President.

In reply to the general question which comes last on the inquiry blank the replies have been most satisfactory and convincing.

The question reads:

"On the basis of the foregoing questions, will you be kind enough to give us the benefit of your personal opinion on the general question of certification of borrowers' statements?"

Replies from which quotations will be made represent a considerable diversity of approach to the question but are unanimous in the final view. It is not practicable to give the personal source of these opinions, but at the head of each will be found the name of the city from which the reply emanates:

Omaha, Neb.

"I believe it would be a great help to banks, and our losses would be much less, by requiring a public accountant's statement, and I personally will say that it saved our bank last year about \$40,000 by making the requirement of a borrower who afterwards declined to furnish

it, and we collected and other banks took on the account and made the loss."

St. Louis, Mo.

"During this year we have found that three of our borrowers falsified their statements. The net loss to us was about \$20,000. Certified statements would have saved us that sum. We strongly favor all statements being signed."

Sacramento, Cal.

"I unqualifiedly endorse the idea, and borrowers whose books and accounts are all right should have no hesitancy in accepting such a condition as the basis of asking for the accommodation they require."

New York City.

"I regard such a practice as beneficial to the highest degree both to the lender and the borrower. To the lender for obvious reasons, and to the borrower because of the increase in confidence of his creditors."

"We urge and would gladly join any movement looking to the unanimous adoption of such a rule by all financial institutions."

Cleveland, O.

"We consider certified statements a great aid in intelligently extending credit, and firmly believe that all banks should co-operate in requiring their large borrowers to furnish such statements."

Syracuse, N. Y.

"The practice of auditing statements by expert accountants will, no doubt, soon be so universal on account of the benefit to the borrower that there will be a temptation to get audits that are not as strict and impartial as they should be. I trust your Association realizes the great harm to be done to your profession if discredit were thrown upon audit statements by the fact that auditors could not be thoroughly depended upon by persons giving credit to their clients."

Cincinnati, O.

"We believe all large concerns should have their books audited at least twice a year by certified public accountants."

Philadelphia, Pa.

"The gradually extending ramifications of our financial system, involving the necessity of granting credits at long range, without personal touch with the borrower, make audited statements a necessity to the large bank, and the borrowing margins of profit in manufacturing and mercantile lines make exact accounting and the advice thereon—which an expert alone can furnish—essential in modern business and banking practice."

"Needless to say we are highly in favor of the certification of borrowers' statements, but feel that perhaps the accountants, rather than the banks, are in a better position to further the movement. Our only regret is that the tendency toward this practice is not more marked. How-

ever, we feel that an accountant should not merely certify that the balance sheet is in agreement with the books, but should state that the financial statement reflects the true condition of the concern and sets forth all debts of every character, including indirect and contingent liabilities on account of endorsements, guarantees, etc."

Pawtucket, R. I.

"We give preference, in buying brokers' paper, to statements certified to by public accountants, particularly those accountants well and favorably known to us. We think membership in your association should give tone and standing to its members, and a list of members should be placed with the banks and all others who are apt to use such service."

Nashville, Tenn.

"A certification of borrowers' statements is always to be desired; an independent audit must, in the very nature of things, be impartial, and more satisfactory to the lender of money."

Seattle, Wash.

"I have for the past several years been an advocate for and a firm believer in the policy that all commercial paper brokers should be required to exact from their patrons from whom they are taking paper for sale and to banks throughout the country, at least an annual, if not a semi-annual, audit, inventory and report by well established certified public accountants of known standing and reliability, believing such a policy would be a safeguard to the interests of the banks."

Denison, Tex.

"It is a step in the right direction. The time may come when every prominent firm of note brokers will be compelled not only to require that statements of their clients be certified by a public accountant, but, as Mr. Cannon has suggested, the certificate of property and of value by an engineer or some one qualified to pass upon the physical properties will be required."

Spokane, Wash.

"We have been very keen to have our customers' statements audited by a certified public accountant, and it is gratifying to note that they are inclining that way more and more; in fact, it is getting to be accepted as a necessity. It is only recently that one of our customers brought in his statement properly certified, and said, 'I was "hot" when you insisted two or three years ago on having our accounts properly certified, but now I would not be without it under any condition. The accountants have given me a better insight into my business than I ever had before, and they have been constructive about it, as they have pointed out how we can save money and make money.' I think this is the unexpressed opinion of a number of others that we have been instrumental in getting to adopt the system of being properly examined."

Madison, Wis.

"We would much prefer, in buying commercial paper, to have the paper certified by public accountants of known character and standing. The question of the borrower's statement is one of the strong elements of danger in the purchase or acquisition of commercial paper."

San Francisco, Cal.

"We think that it will not be long before it will be considered a necessity for borrowers either to submit a statement by public accountant or by the accountant that the bank suggests."

Denver, Colo.

"I hope that the day is not far distant when independent certification will be required."

New Milford, Conn.

"If it were not for keen competition it would undoubtedly become a universal rule among bankers."

Winsted, Conn.

"We believe that the adoption by borrowers of certified statements of their financial condition, and the enactment by the State legislatures of a uniform false statement law with a heavy penalty for violation, would be a distinct advantage to the credit grantor."

Utica, N. Y.

"We have long been in favor of borrowers' statements, and the writer introduced, a number of years ago, a form of statement blank in use in this section of the State. These statements should be prepared by certified accountants, or at least followed up by such accountants' examination and verification. This, in my opinion, is one of the important things to protect the bank in granting loans."

Los Angeles, Cal.

"We are heartily in favor of commercial houses using public accountants to make up their credit statements, as it gives us more confidence in the figures submitted, and they are usually able to make up a more intelligible statement."

Merced, Cal.

"We heartily favor it. Have just suffered a loss on account of a false statement made by a merchant."

Pomona, Cal.

"The average individual is inclined to overestimate his values. If certification of reliable accountants was required it would have a tendency to 'keep them nearer the earth.' "

San Francisco, Cal.

"Heartily in favor of it and am doing all in my power to make it general."

Denver, Colo.

"It would have a tendency to facilitate extension of credit in proper cases."

Hartford, Conn.

"We firmly believe it to be a step in the right direction."

Naugatuck, Conn.

"It's the only true basis for credits."

Atlanta, Ga.

"We always prefer statements certified by a public accountant, and when taking on a substantial commitment, in which the borrowers' responsibility is an important factor, it is our custom to require an audit."

Macon, Ga.

"I think every money-lending institution should protect itself by requiring all the *light* possible."

Cairo, Ill.

"Think all borrowers of large amounts should make statements certified by a reputable C. P. A."

Chicago, Ill.

"I should like to have them all certified, but it is not practised, as sentiment and personal feelings are still strong elements in the relations existing between borrowers and lenders."

"We are heartily in favor of it, and welcome any move in the direction of encouraging this practice. . . . We purchase more or less commercial paper through note brokers, and we often take pleasure in remarking to the broker that the statement is certified by some well-known firm of accountants. I, for one, do not feel that any firm or corporation or business house has any right to offer its paper in the open market unless a statement is submitted, and many a name have I refused to purchase for our bank because of the lack of a statement."

"They should be universal in cases where the paper is offered through brokers, and the personality of the borrower is therefore unknown."

"Certification of statements by certified public accountants of high standing is undoubtedly advisable, and I wish that it were customary for banks to insist upon such certified statements. I am a great believer in the good work of certified accountants, not only for mercantile and manufacturing concerns, but for banks and public corporations which ask credit in any way from the public."

"Very heartily in favor of it, but there are a number of poor accountants. These you should eliminate from your ranks."

Decatur, Ill.

"We would much prefer to have all borrowers have their statements certified to by public accountants, which we believe would reduce the interest rate to such borrowers."

Joliet, Ill.

"We would appreciate it very much could we have a trustworthy statement of every borrower's business."

Lincoln, Ill.

"I believe it eminently proper and good business, as we have had too much wildcat commercial paper offered by brokers, who had nothing but personal gain, in the form of commission, in view."

National Stock Yards, Ill.

"Believe in it thoroughly."

Evansville, Ind.

"Good for both borrower and lender, and should be a requirement when lending money."

Indianapolis, Ind.

"Certification of borrowers' statements as shown by their books is not sufficient. There should be an audit of inventories and independent certification of accounts receivable. When brokers sell paper of borrowers they, the brokers, should be required to certify as to amount issued and sold."

New Albany, Ind.

"We heartily endorse and favor the plan. Believe that the prejudice in certain quarters can be speedily overcome by co-operation among bankers."

Boone, Iowa.

"Should be required, and banks should decline advances except upon such statements."

Great Bend, Kan.

"We deem it of the highest importance, and shall not become purchasers of commercial paper until it comes into general vogue."

Louisville, Ky.

"We would be glad to have this system a requirement by the banks of our country. It would be a great comfort

to the banks to have such statements. They would feel a greater confidence in extending credit, and we would most heartily approve any movement to that end."

"If we dealt in paper of this kind we unquestionably would favor your proposition. We think it would add very materially to the strength of the paper and be a very great protection, worth much more than it costs, to the banks and institutions purchasing such paper."

Shreveport, La.

"It is my opinion that the time is not far distant when country banks buying commercial paper will insist on certified statements."

Portland, Me.

"Would be glad to see a rule adopted universally by brokers not to offer, and by banks not to buy, paper unaccompanied by certified statements."

Baltimore, Md.

"It is most desirable to the honest borrower and to the lender."

"Whenever the faintest shadow of doubt arises as to the financial status of any of our borrowers we immediately request them to have an audit made by certified public accountants. I am in favor of certification of borrowers' statements as one of the surest means of protecting banks against deception."

"Believe it would be a great advantage. Have always advocated examination by expert accountants in any company in which I personally am interested."

Boston, Mass.

"We prefer such statements, but do not insist on them in every case with our patrons."

"Should be certified, so dependence can be placed upon them."

"Hope in a very short time that banks will all insist on it."

Lowell, Mass.

"In line of safeguarding banks and investors would help some corporations to understand their own true condition."

Peabody, Mass.

"Personally I strongly favor the plan and am doing what I can to hasten the day—which is surely coming—when all large borrowers will furnish certified statements."

West Newton, Mass.

"We believe that the practice is becoming much more general, and will, as it should, eventually become universal. This cannot, in our opinion, fail to have a wholesome effect on business in general."

Battle Creek, Mich.

"Every statement submitted by a note broker should be on the authority of certified accountants, with an affi-

davit of two leading officers of the company that the figures submitted and the property in the various warehouses throughout the country was absolutely true according to their best knowledge and belief. We are heartily in favor of your system."

Duluth, Minn.

"The time is not far away when all large borrowers must furnish certified statements of accounts and verified inventories."

St. Paul, Minn.

"I am strongly in favor of certification of borrowers' statements, and am impressed with the fact that they would be much more valuable to the lender if an appraisal or inventory by experts accompanied the statement."

Gulfport, Miss.

"We think it is an absolutely good thing, and believe that eventually it will be required generally by the banks as they gradually get their customers educated to the fairness and necessity of it."

Kansas City, Mo.

"We think it certainly must come, and to our mind the sooner the better."

"We would be glad to have certified statements from every borrower, no matter how small the business. Borrower often does not know really how his business is going until such statement is made to him."

"When we receive a statement certified by competent accountants we deal with greater confidence with the borrower who submits such statement. We believe, therefore, that the custom of submitting such statements will grow."

St. Louis, Mo.

"In my opinion it is very desirable, and to the highest development of credit it is essential."

Miles City, Mont.

"I have always believed we should have them [certified statements], and especially so of late years, as the amount of commercial paper is increasing so rapidly."

Omaha, Neb.

"We believe the practice should be encouraged, and the writer thinks that an amendment to the banking act requiring it for all paper taken within certain fixed limits would be of more service to the public than constant bank examinations."

"In connection with the purchase of commercial paper we lean by preference very strongly toward the paper of those concerns that do furnish statements certified by public accountants, and endeavor to use what little influence we may have in increasing the custom of submitting such statements."

Newark, N. J.

"Recommend it highly."

Buffalo, N. Y.

"We believe in the plan. A bank cannot have too much information on any name. An audit by a good firm often brings out things not shown by a mere statement."

Mount Vernon, N. Y.

"Certification by public accountants should become general."

New York City.

"We prefer to have certified statements whenever we can get them."

"We do not insist on it, but would like to have it become a universal custom. Very desirable."

"We believe that borrowers who offer their paper through note brokers should have their original statement certified to by public accountants, and the copies submitted to intending purchasers should state that fact."

"Except where we know the borrowers personally, we consider certified statements essential."

"We favor certification of borrowers' statements by reliable accountants."

"We would be willing to give you our hearty co-operation in this matter, but are of the opinion that unless all the banks come to a mutual understanding in this respect it will be almost impossible to obtain the desired results."

"Will you allow the writer to wish you hearty good luck in your endeavor to bring before banks the importance of co-operating in the requirement of the certification of the statements rendered by borrowers?"

"It would be desirable if such a practice could be put into general use."

"If the size of the borrower, financially, warrants, certified statements should be insisted upon. We recommend our customers to do so."

"I believe that the certification should be more specific than at present, and tell just what the accountant has done besides simply auditing the books."

"It is a step in the right direction."

"In the case of outside notes offered by brokers, in which we have no sentimental interest, we are very apt to look for the accountant's certificate before considering the figures. If the large paper-buying banks would co-operate with note brokers in requiring certified statements from all concerns whose paper they handle losses would be minimized and commercial paper would find a readier market."

Ogdensburg, N. Y.

"I cannot commend too strongly the suggestion which prompted the enclosed inquiries. The benefit to both borrower and buyer is apparent, and need not be pointed out to either."

Ossining, N. Y.

"We think that the idea is a very good one, one that would work to the advantage of money lenders, without a doubt."

Rochester, N. Y.

"We should like to see the custom become general, the accountant, of course, being capable and reliable."

Asheville, N. C.

"Have always urged it in connection with the enterprises in which I have been interested, and I feel that nothing else has done so much to establish for them a high credit standing and low interest rates. It has been my desire and purpose to give public utterance to my views on this subject at some time in the near future."

Charlotte, N. C.

"We endorse it heartily."

Fargo, N. D.

"We approve the idea, and hope for its general adoption by all borrowers."

Dayton, O.

"Certified statements are much more satisfactory and convincing than the ordinary kind."

Findlay, O.

"We think it is growing each year, and eventually may become universal."

Sandusky, O.

"I believe that good banking really demands such certification of all statements."

Springfield, O.

"If all would see the advantage to themselves it would be a good thing, but that is a matter of education."

Youngstown, O.

"We very much favor its uniform adoption, especially with brokers' paper."

Muskogee, Okla.

"We favor the certification of borrowers' statements."

Altoona, Pa.

"For the protection of our depositors and stockholders I advocate requiring certified statements; then loans can be selected on merchandise, manufactured supplies, that are classed as necessities, and are always in demand."

Bangor, Pa.

"I believe it would be an exceptionally good thing for banks if they could, in every case, require such statement before extension of credit."

Donora, Pa.

"This is a question which must be decided on the merits of each individual application; in our case, we have a direct knowledge of the habits of our borrowers, in almost every case; such a knowledge would, of course, be out

of the question were we a large institution, or located in a city. As a general proposition, I feel safe in saying that if a certified statement were required in every case the prospective borrower would have no reason to object to the requirement if he were worthy of having the accommodation extended to him, while the undesirable applicant would be deterred from taking the time of the banks' officers by a knowledge of the fact that he would be required to submit to a test which he could not hope to satisfy. If this be true, the interests of the banker and of the borrower who is worthy of credit are protected when a certified statement is required."

Du Bois, Pa.

"Good thing, of course."

Lancaster, Pa.

"We are strongly in favor of statements made by public accountants for firms borrowing through note brokers. . . . We think that large business firms should issue certified statements, and note brokers should not handle paper not so certified."

Lemoyne, Pa.

"We should like to see the plan become general."

Lewistown, Pa.

"Statements should be submitted regularly, and the banks cheerfully informed, for the borrowers' own benefit."

Philadelphia, Pa.

"The certified statement of some reliable certified accountant should be an absolute essential by all banks prior to consideration of any credits."

"We deem them a future necessity."

Pittsburgh, Pa.

"In favor of it, and think that all bankers should encourage the practice."

"Every account of any consequence should be certified by public accountants, and all receivables should be itemized. This statement is based on past experience."

Reading, Pa.

"We have more confidence in the statements so certified, and would prefer if this practice could be uniformly adopted by the note brokers."

West Chester, Pa.

"Right, beyond question."

Providence, R. I.

"We heartily approve of the certification of statements, and think in many cases the appraisal of a competent expert in merchandise values should accompany the statement."

"We believe this a proper requirement, and hope that the time is not far distant when the borrower will under-

stand that his first step in applying for a line of credit at a bank is to have prepared by a responsible accountant a properly certified statement."

Dallas, Tex.

"I think the time is coming when all large borrowers will feel the necessity of providing statements by public accountants."

San Antonio, Tex.

"It is the only safe way."

Norfolk, Va.

"We never lose an opportunity to urge the certification of borrowers' statements by public accountants."

Richmond, Va.

"I firmly believe that the time will come when very few banks will grant considerable lines of credit except upon statements certified by independent accountants in whom they have confidence."

Bellingham, Wash.

"I would like to see the time when all statements would have to be certified."

North Yakima, Wash.

"I should be glad to see the practice become general. We have lost money loaned on statements which perhaps were correct as to books, but misleading and inaccurate in a way that an analysis would have uncovered."

Spokane, Wash.

"We think the plan should be adopted as fast as it consistently can."

Racine, Wis.

"It is our opinion that all corporations or firms selling their paper through a broker should have their books audited at least once a year by certified public accountants."

CHAPTER IV

The extracts contained in the foregoing pages demonstrate incontestably that there is a preponderance of opinion in favor of certification of borrowers' statements. A small minority, however, has gone still further and has introduced the rule that statements must be certified. Many others wish that such a rule could be enforced, but fear to make the attempt until the custom has become more general.

Naturally, the greater development of the idea of compulsory certification is to be found in the larger cities, but it is gratifying to note that the sentiment in favor of this provision is distributed over a considerable portion of the country.

The following extracts are selected from the opinions expressed in reply to the first question on the inquiry blank, viz.:

"What is the attitude of your bank in regard to requiring that statements submitted by borrowers or note brokers shall be certified by public accountants?"

It is of much interest to view these replies first in the light of the financial status of the banks from which they emanate, and in the following statement the various kinds of opinions expressed are separated into four classes and these classes again separated according to the combined capital and surplus of the banks concerned:

COMBINED CAPITAL AND SURPLUS OF BANKS

Attitude in regard to certification	\$100,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$2,000,000	\$2,000,000 to \$5,000,000	\$5,000,000 to \$10,000,000	\$10,000,000 and over
Demand.....	13	12	9	5	4		
Prefer	234	179	87	50	31	9	9
Do not favor,...	7	1			1		
Indifferent*	112	56	17	9	5	1	1

*Banks and trust companies whose operations do not include purchase of commercial paper, and which have, therefore, no preference in the matter.

It would be instructive to reproduce all the replies to this important question, but the following selections may be taken as fairly indicative of the trend of opinion:

New York City.

"We prefer to have them [statements] certified by public accountants."

San Francisco, Cal.

"We are using every legitimate influence to bring this about."

New York City.

"We prefer statements submitted by reliable public accountants."

"We believe that they should be required, but on account of competition do not feel we can insist on it. I think that the commercial paper brokers can probably do more than the bankers towards accomplishing this end."

San Francisco, Cal.

"We are trying to educate our borrowers and brokers to furnish statements certified by public accountants."

Wilmington, Del.

"More and more inclined only to buy paper accompanied by such statements."

Chicago, Ill.

"We favor it strongly, and give the preference to paper accompanied by certified statements."

Boston, Mass.

"We prefer such statements, but do not insist on them in every case with our patrons."

Peabody, Mass.

"We favor the idea and are doing what we can to educate borrowers to it, but local conditions here prevent our requiring the certification."

St. Paul, Minn.

"We regard statements certified by public accountants with much more favor, and require same wherever practicable."

Kansas City, Mo.

"We require them whenever we can do so."

St. Louis, Mo.

"We strongly favor, and always urge, that statements be made and certified by public accountants."

Newark, N. J.

"We continually recommend them as desirable, for their own protection as well as ours."

Rochester, N. Y.

"We have not insisted in a general way, but wish all statements were certified by public accountants."

Charlotte, N. C.

"Required in cases of corporations and most individuals."

Fargo, N. D.

"In purchasing commercial paper of brokers we always give that paper preference that is sustained by reports of public accountants."

Cleveland, O.

"We endeavor to have all our large borrowers file statements that have been certified by public accountants, and in the purchase of paper from note brokers we prefer the names that have certified statements."

Sandusky, O.

"We always demand it in case of brokers."

Altoona, Pa.

"When in doubt as to the financial standing of borrowers we request a statement. Purchasing commercial paper from some note brokers, we ask for balance sheet certified by public accountants."

Lemoyne, Pa.

"We require such statements to be certified by public accountants."

Lancaster, Pa.

"We are strongly in favor of statements made by public accountants for firms borrowing through note brokers."

Philadelphia, Pa.

"We come more and more to give preference to names with audited statements."

"It is not our custom to require certified statements from borrowers without exception, although we encourage the practice wherever possible. Keen competitive methods in the banking business tend to hinder banks from demanding certified financial statements."

Pittsburgh, Pa.

"We require it only in special cases, but would like to see the practice more general."

Providence, R. I.

"We much prefer paper of concerns whose statements have been made up by certified accountants of recognized ability."

Nashville, Tenn.

"We have no requirements, but much prefer statements made by certified public accountants."

Dallas, Tex.

"We do not require it, but when certified statements are furnished us we put more confidence in them."

Norfolk, Va.

"We require statements from practically all of our customers, and think all parties selling paper through note brokers should furnish them; and statements by certified public accountants are decidedly preferable."

Camden, N. J.

"We do not require it, but would much prefer to have all statements certified."

Lincoln, Neb.

"We insist upon a certified statement when we purchase commercial paper."

Greenville, Miss.

"Not in a position to require it, but would like to be."

Battle Creek, Mich.

"Have never required the certification of statements, though look with favor upon statements that have been certified by disinterested public accountants."

Holyoke, Mass.

"We demand it."

Baltimore, Md.

"We do not require it. However, when furnished it creates a better impression."

Wichita, Kan.

"We do not require audited statements, but give a decided preference to paper supported by such statements."

Geneva, N. Y.

"We require them in almost every instance where a line of discount is granted."

Albany, N. Y.

"When purchasing paper through commercial brokers we require statements signed by certified public accountants when possible."

Rockford, Ill.

"We do not require it, but are more willing to purchase paper thus certified."

Green Bay, Wis.

"It is not possible always to insist upon it, but we recommend it."

Carthage, N. Y.

"We do, except in cases of a few local concerns with which we are in close touch."

New York City.

"We always require certified statements."

"We are requiring from note brokers that the statements of all firms whose paper we purchase be certified to by public accountants."

"Required on paper purchased from note brokers."

Los Angeles, Cal.

"We favor such statements."

Denver, Colo.

"Request is often made, and in some cases required."

Atlanta, Ga.

"It is our custom to require an audit."

Chicago, Ill.

"We get certified statements where we can."

"Always prefer them."

Joliet, Ill.

"We require statements."

Indianapolis, Ind.

"Custom and competition lead us to indifference with most of our own customers. We are more exacting when buying paper through brokers, and discriminate in favor of statements certified by public accountants."

Shreveport, La.

"In buying out of town commercial paper we give preference to concerns whose statements are certified by reputable firms of public accountants."

Baltimore, Md.

"Have, as yet, no definite policy to prefer certified statements. Whenever the faintest shadow of doubt arises as to the financial status of any of our borrowers we immediately request them to have an audit made by certified public accountants."

Boston, Mass.

"We insist on it as far as we are able."

St. Louis, Mo.

"We encourage and urge where it can be done, in view of bank competition."

Omaha, Neb.

"We prefer that the statements submitted by borrowers should be statements of public accountants."

"We prefer them, and always ask for them from brokers."

Philadelphia, Pa.

"We get them when we can, and prefer them, but do not at present make them essential."

Hoboken, N. J.

"We have not made this an established rule except when purchasing commercial paper."

Webster Groves, Mo.

"We require it."

St. Charles, Mo.

"Require statements."

Kansas City, Mo.

"We insist upon it in considering paper offered by brokers."

Joplin, Mo.

"We do not require it. We, and all others who take commercial, should."

Minneapolis, Minn.

"Always glad to get them, but do not insist in every instance."

Taunton, Mass.

"We think it would be an additional safeguard, but do not propose to insist upon it."

Cumberland, Md.

"Requested when lines of credit reach certain figures."

Baltimore, Md.

"When possible, get certified statements from our customers."

Emporia, Kan.

"We would like to insist on this method."

Cedar Falls, Iowa.

"We believe this would be a very good thing, but question whether we could enforce it in a town of this size."

Berkeley, Cal.

"We would prefer certified statements, but do not exact them. Custom here places us in a position to pass upon each case without applying a general rule."

Waterville, Me.

"The profession of certified public accountant is not known here, and it would therefore be useless to require certified statements from our borrowers."

CHAPTER V

The second question on the inquiry blank submitted to bankers is one that elicited a wide variety of replies. The question reads:

"Where this [certification] is required how is it regarded by the borrowers of your bank?"

Many bankers expressed the opinion that it would not be practicable to enforce such a rule unless it were universal, because of the dissatisfaction which would be caused among borrowers. Other bankers believed that it would be better to offend an occasional borrower than to run the risk of accepting unverified statements. Still others—and these are principally in the larger cities—report that they have found no objection whatever to the requirement, inasmuch as borrowers are learning that by submitting certified statements they are strengthening their own position.

Nearly every reply received from bankers whose institutions are interested in commercial paper gave expression of opinion on this point. In order to present a fair comparative view the following extracts are taken at random from replies received:

New York City.

"We have yet to hear of a single objection."

"It is being taken in the right spirit and we are adding to the number every year."

"Many borrowers are not yet ready for this as a general requirement, but an increasing number look at it with favor."

Utica, N. Y.

"Favorably in our experience."

Los Angeles, Cal.

"Have not met with many objections."

San Francisco, Cal.

"Nearly all our customers look upon it with favor."

St. Paul, Minn.

"Our experience is that some borrowers fear the expense; others feel well repaid for having their books audited by public accountants."

St. Louis, Mo.

"What objection there is could be removed by a campaign of your association, the banks and commercial paper brokers."

"Broad-minded and broad-gauged borrowers always agree."

Cleveland, O.

"Our small borrowers would object to the expense."

Newark, N. J.

"Where the advantages are fully explained we find that in most instances it meets with approval."

Buffalo, N. Y.

"A few seem to think it 'O K.' The many take exceptions. It is a campaign of education."

Cleveland, O.

"As a rule, borrowers do not object."

Springfield, O.

"Some would withdraw their business from us entirely."

Denver, Colo.

"Some take the suggestion very kindly, others resent it—the latter changing their bank accounts."

San Francisco, Cal.

"Resisted by many, particularly the old-fashioned."

Hartford, Conn.

"They fear the expense of the examination."

Altoona, Pa.

"No objection if they are confident they can submit satisfactory statements."

Lewistown, Pa.

"Are inclined to resent the requirement. It is more a matter of education."

Philadelphia, Pa.

"It depends upon the borrowers' relations to us. If large enough to be independent of our facilities they must be handled carefully to avoid creating a resentment. Otherwise, they are inclined to acquiesce more gracefully. We have never been refused."

West Chester, Pa.

"Rarely have any difficulty."

Philadelphia, Pa.

"Where a client retains a certified public accountant as the result of a suggestion on the part of the banker the true value of the audit is appreciated, and we do not know of an instance in which the practice, once started, has been discontinued."

Tipton, Ind.

"If they complain we should not care to buy the paper. We have very little complaint about it."

Geneva, N. Y.

"I think the prejudice against it that was common some years ago has disappeared."

Canton, N. Y.

"Our observation inclines us to the opinion that the stronger the financial position of the borrower the more

likely he is to welcome the suggestion. Many of the best seem to appreciate its value to themselves."

Canandaigua, N. Y.

"Some of the most responsible borrowers take a satisfaction in being able to furnish certificate by a public accountant."

Racine, Wis.

"We find a growing sentiment of customers in favor of certified statements."

Greencastle, Ind.

"No objection to it by solvent concerns."

El Paso, Tex.

"We have never found a good one to object."

Kansas City, Mo.

"Borrowers, as a rule, object to it, alleging that it imposes unnecessary expense upon them."

"Our borrowers seldom take kindly to the suggestion in the first instance."

Las Cruces, N. Mex.

"Where statements are asked, the borrowers show resentment. They need education."

Milwaukee, Wis.

"In a few instances where we have requested such statements our customers have not apparently taken kindly to the idea."

Spokane, Wash.

"In most cases it is objectionable on account of expense, annoyance, etc.

Modesto, Cal.

"Not objected to by good concerns."

Buffalo, N. Y.

"Willingly consent."

The third question on the inquiry blank reads:

"To what extent do you find that borrowers voluntarily submit certified statements?"

This is answered to a great degree by the replies to the preceding question. In the large cities, and in some of the smaller cities in the districts adjacent to large centres, the practice seems to be quite prevalent; but in outlying districts the general report is that borrowers are not acquainted with the advantages of certified statements, and in some instances are not even cognizant that certified statements are ever submitted. In such cases the idea of a certified statement voluntarily prepared and submitted is out of the question; but wherever the situation is understood, and the submission of certified statements is recommended by the banks, there is a considerable number of borrowers ready to conform to this modern practice.

Some of the replies were in terms of percentage. For example, a banker in New York reports that not more than 5% furnish certified statements voluntarily. Another New York banker estimates the number at slightly less than 5%. A California banker estimates 10%. A Chicago estimate is 15%. A Baltimore banker estimates 5%. From Boston comes an estimate of 10%. A banker in St. Louis says, "About 75% of those who give us certified statements do so voluntarily, but unfortunately only about 10% have done so." Omaha is more fortunate; a banker there reports that one-half the borrowers voluntarily submit certified statements. In Fargo, N.D., a banker reports 20%. A Philadelphia estimate is 5%, and another from the same city 25%. A Norfolk banker reports, "Most of our borrowers now furnish statements without our asking for them."

The foregoing extracts are fairly indicative of the replies from those who report the existence of voluntary submission of certified statements; but by far the greater number of replies state that borrowers do not voluntarily have their statements certified before presenting them to the bank. As has been seen, there is satisfactory evidence of a tendency toward certification in various parts of the country, but the fact that the estimates are chiefly from 5% to 10% of the total number of borrowers on commercial paper shows that a great deal of education is required, and

that bankers, note brokers and accountants have a considerable work before them to demonstrate the necessity for what should be *sine qua non* in the case of applications for loans not supported by collateral.

Closely related to the two foregoing questions is No. 5 on the inquiry blank, which reads as follows:

“Do you notice an increase or decrease in the proportion of borrowers’ statements certified by public accountants?”

The reports on this question may well be summarized in the form of a tabulated statement showing those bankers who report an increase, the number reporting no change and the number reporting a decrease. It will be noted that a considerable number of the total replies failed to answer this particular inquiry.

One of the greatest banks in the country reports:

“We believe the practice eventually will become universal.”

The following is a summary of replies to question 5:

<i>Increase.</i>	<i>No Change.</i>	<i>Decrease.</i>
307	58	1

CHAPTER VI

Probably the most important question in the series submitted by the American Association of Public Accountants to the bankers of the country is that which deals with the effect of certified statements.

The question reads:

"Other things being equal, do certified statements have a favorable effect upon the terms and interest rates granted by your bank to borrowers?"

Here we have the crux of the whole matter. And yet, in a way, the interrogation is not altogether satisfactory, because it is found that in a great many cases while no difference in the terms or interest rates may be made there is a far greater readiness to make a loan upon supported paper than upon unsupported; accordingly, in order to know the true state of affairs, it is almost necessary to bear in mind the general replies in regard to the attitude of the bank in the matter of certified statements and to read the quotations which follow in the light of the information previously gained.

In nearly every case the banker who prefers certified statements is ready to extend better terms and in some instances better rates to the borrower whose affairs have been investigated by an independent accountant.

The following quotations from bankers' replies fairly illustrate the opinions for and against the idea that certified statements should have a favorable effect:

New York City.

"It goes without saying that certified statements do have a favorable effect upon the terms and interest rates of this bank granted to borrowers."

Richmond, Va.

"Other things being equal, certified statements have a very decided effect upon the terms granted to borrowers. They do not, however, affect the interest rates, as a general thing."

Denver, Colo.

"Undoubtedly increases our confidence in such borrowers, and in consequence they can depend on greater consideration and more liberal treatment."

Portland, Me.

"Always give preference to certified statements. Difference between certified and uncertified statements almost if not quite as great in its influence in taking paper as that between a statement and no statement."

Chicago, Ill.

"I do not know as they do at the present time, but they surely will in times coming."

Louisville, Ky.

"It would, undoubtedly."

Chicago, Ill.

"Everything else being equal, I believe that those borrowers who have their statements certified to by public accountants would obtain slightly better terms and rates than those who do not."

St. Paul, Minn.

"Certified statements unquestionably have a favorable effect upon the terms and interest rates granted not only by our bank but all banks to borrowers."

St. Louis, Mo.

"Certified statements have a decidedly favorable effect upon us, and undoubtedly secure better interest rates."

Asheville, N. C.

"Yes, very much so."

Philadelphia, Pa.

"Other things being equal, the fact of loaning may be affected by certified statements—terms and rates of interest by the market."

Pittsburgh, Pa.

"No effect on rates. Loans are more readily accepted."

Philadelphia, Pa.

"As to lines of accommodation, yes; and also slightly as to interest rates."

Pittsburgh, Pa.

"Yes, a thoroughly itemized statement would give confidence, and no doubt lessen interest rates to concerns furnishing same."

Nashville, Tenn.

"Other things being equal, certified statements have preference both as to terms and interest."

Bellingham, Wash.

"The borrower has a better chance of getting the loan. The interest would be no less, because our demand is largely more than we can take care of."

Racine, Wis.

"We have not made any special rates on account of the certified statements, the companies furnishing them always commanding the lowest rates in the market. We believe, however, that the certified statement would warrant a better rate than the ordinary statement furnished."

Phillipsburg, N. J.

"All things considered, we would be inclined to shade the rate."

Camden, N. J.

"They certainly have the preference, and it often affects the rate charged."

Jackson, Miss.

"It would have very material and favorable effect."

Emporia, Kan.

"Would establish a better line of credit to borrower; would not affect rate."

Chicago, Ill.

"Sometimes results in more liberal lines of credit, but has no effect on interest rates."

Crawfordsville, Ill.

"Most certainly."

Kansas City, Mo.

"Do not think such statements would perceptibly affect the interest rate, as compared with other paper of equally good quality."

Mount Vernon, N. Y.

"Not necessarily on terms or rates. Chief value is that lender feels that the report has been made by a disinterested party."

New York City.

"Always prefer to have them."

"Yes."

"No."

"No, and yes."

"It would."

"To some extent."

"Yes, to a slight extent, although the effect on our willingness to lend is more important."

"No."

"It all depends upon the borrower and our judgment of his character and responsibility. A certified statement is a favorable indication."

"They do."

Ogdensburg, N. Y.

"Yes, in making outside loans."

Utica, N. Y.

"Yes."

Los Angeles, Cal.

"Yes, we have more confidence in the statements of concerns certified by public accountants."

Pomona, Cal.

"Yes."

San Francisco, Cal.

"Yes."

"It has its effect on the terms but not the rate of interest."

Denver, Colo.

"It might have a bearing."

Hartford, Conn.

"Yes."

New Milford, Conn.

"Yes."

Wilmington, Del.

"Yes."

Macon, Ga.

"Yes."

Cairo, Ill.

"No, but are looked upon with more favor."

Chicago, Ill.

"Certified statements improve the desirability, and therefore help the sale of paper in brokers' hands, but have very little effect upon the terms and interest rates."

"Yes, decidedly."

Joliet, Ill.

"Might make easier terms but do not affect the rate of interest."

Lincoln, Ill.

"Most assuredly."

Indianapolis, Ind.

"Yes."

Boone, Iowa.

"Yes."

Shreveport, La.

"Yes."

Baltimore, Md.

"Yes."

"They would probably save delay of further investigation and make us somewhat more willing to loan. Do not believe they would materially affect rate."

Boston, Mass.

"No."

"It gives a bank a better impression at once to have a certified statement."

Peabody, Mass.

"Yes, decidedly."

Duluth, Minn.

"Yes."

Gulfport, Miss.

"Yes."

Kansas City, Mo.

"They would have a beneficial effect upon us."

St. Louis, Mo.

"Yes."

Omaha, Neb.

"They do."

"Yes, they do."

Buffalo, N. Y.

"Yes, if certified accountants are of good repute and experience."

Charlotte, N. C.

"Yes."

Fargo, N. D.

"Yes."

Cincinnati, O.

"They do."

Cleveland, O.

"Yes."

Findlay, O.

"Interest rates are not affected."

Springfield, O.

"They do not. The rate is regulated by the balance they carry with us."

Bangor, Pa.

"Yes."

Lancaster, Pa.

"No, but we favor the certified statements."

Providence, R. I.

"Cannot say that we have discriminated as yet in making interest rates."

Denison, Tex.

"It may not cut any figure in the rate, but of two offerings of equal merit where the statement of one is certified by a public accountant would give the preference in purchase."

San Antonio, Tex.

"Yes."

Norfolk, Va.

"Certified statements influence us very largely in the amount of accommodation extended to customers."

Spokane, Wash.

"Yes."

"They do."

Paterson, N. J.

"Have no influence on rates."

Harrison, N. J.

"Yes."

Manchester, N. H.

"Not much."

Hastings, Neb.

"They do."

Butte, Mont.

"Yes."

Webster Groves, Mo.

"Condition, as shown by statement, affects rate."

St. Joseph, Mo.

"Yes, they usually give them preference."

Corinth, Miss.

"It certainly would have."

St. Paul, Minn.

"Yes."

Sault Ste. Marie, Mich.

"A favorable certificate tends to give borrowers the most favorable rate of interest."

Worcester, Mass.

"Yes."

Dorchester, Mass.

"Yes."

Cumberland, Md.

"Most assuredly, yes."

Boston, Mass.

"Yes."

"Rates are not influenced."

Baltimore, Md.

"Unquestionably they do."

"Very little effect as to rates; but, of course, certified statements inspire confidence as to amounts we would loan."

Lawrence, Kan.

"Not much effect on the rate, as a rule, but a certified statement approved by the lender would lubricate transactions, give more confidence, and lead to a preferred class."

Sioux City, Iowa.

"Have no effect on rate."

Martinsville, Ky.

"We believe in them."

Vancouver, Wash.

"No."

Berkeley, Cal.

"Decidedly."

Los Angeles, Cal.

"Yes, indeed."

Fulton, N. Y.

"Yes, if the statement shows up well."

Albany, N. Y.

"No. We are influenced more by the reports from banks and trade generally."

Ridgewood, N. J.

"Slightly better."

Red Bank, N. J.

"They should."

Oshkosh, Wis.

"I think so."

Las Cruces, N. Mex.

"Very likely."

Hammond, Ind.

"As a rule."

Springfield, Ill.

"Yes, better satisfied."

Jersey Shore, Pa.

"Yes, it would."

Spokane, Wash.

"A certified statement is always preferable."

Houston, Tex.

"We think it would."

Galveston, Tex.

"Think well of them, but they do not affect rates."

Little Falls, N. Y.

"Yes, on paper which we buy."

From many parts of the country the reply to the question concerning the effect of certified statements upon rates and terms is simply "Yes."

In the foregoing excerpts an effort has been made to show opinions from widely separate points.

The capital of the banks whose officers have expressed opinions on this subject is of considerable moment, and the following statement, comprising the numbers of replies in which this question was answered, will be found of interest:

COMBINED CAPITAL AND SURPLUS OF BANKS

Attitude of banks when certified statements are submitted	\$100,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$2,000,000	\$2,000,000 to \$5,000,000	\$5,000,000 to \$10,000,000	\$10,000,000 and over
Better terms and rates.....	116	89	52	21	9	3	2
Better terms only	1	5	1	3	3		2
Rates and terms unaffected, but paper more fa- vorably consid- ered.....	15	14	13	8	6	1	3
No difference...	54	45	17	9	5	1	2

CHAPTER VII

In the foregoing pages is given a fairly representative selection of replies in so far as they concern the six general questions on the inquiry blank submitted to bankers. The replies might be further subdivided and assorted, but in view of the practical unanimity in favor of certification it seems unnecessary to labor the point. In several instances, however, the replies have contained suggestions and comments not directly concerned with the questions asked, but of considerable value, and the following pages contain some of the more important of these expressions of opinion.

These comments and suggestions are commended to the consideration of bankers, accountants and the public generally.

Omaha, Neb.

"The writer thinks that an amendment to the banking act, requiring it [certification] for all paper taken within certain fixed limits, would be of more service to the public than constant bank examinations."

Indianapolis, Ind.

"Certification of borrowers' statements as shown by their books is not sufficient. There should be an audit of inventories and independent verification of accounts

receivable. When brokers sell paper of borrowers they, the brokers, should be required to certify as to amount issued and sold."

Battle Creek, Mich.

"Every statement submitted by a note broker should be on the authority of certified accountants, with an affidavit of two leading officers of the company that the figures submitted and the property in the various warehouses throughout the country was absolutely true according to their best knowledge and belief."

St. Paul, Minn.

"I am strongly in favor of certification of borrowers' statements and am impressed with the fact that they would be much more valuable to the lender if an appraisal or inventory by experts accompanied the statement."

New York City.

"Commercial paper brokers could probably do more than bankers toward accomplishing this end. The certification should be more specific than at present, and tell just what the accountant has done besides simply auditing the books."

Cincinnati, O.

"All large concerns should have their books audited at least twice a year by certified public accountants."

Philadelphia, Pa.

"We feel that the accountant should not merely certify that the balance sheet is in agreement with the books,

but should state that the financial statement reflects the true condition of the concern and sets forth all debts of every character, including indirect and contingent liabilities on account of endorsement, guarantees, etc."

Nashville, Tenn.

"If the clearing houses of the country should adopt a rule requiring that all statements be certified by public accountants it is manifest that it would be of decided advantage to those who lend upon the faith of the statements."

Helena, Mont.

"I hope the time will come when the accounts of all large borrowers will be certified by public accountants, and furthermore, that their offerings of paper to the public will pass through some sort of commercial paper clearing house as an additional check upon the affairs of the borrower."

Webster Groves, Mo.

"In addition to certification of statements, concerns selling notes through brokers should register at some central office all their notes."

Joplin, Mo.

"Should be certified and notes recorded."

Jackson, Miss.

"It will be necessary to have concert of action and co-operation of all banks in the community."

Minneapolis, Minn.

"Think that the certification of borrowers' statements is an excellent thing where examination of assets accompanies verification of the accounts."

Evansville, Ind.

"Depends entirely upon the standing of the C. P. A. Would rather have a check against inventories than *resumé* of book figures."

Danville, Ill.

"In my opinion the rule should be certification of borrowers' statements and note brokers' certificates on paper outstanding at the time of purchase."

Seattle, Wash.

"We are much in favor of certification of statements, and especially independent values."

Deadwood, S. D.

"We believe that banks should demand certified statements, and in the case of commercial paper not only certified statements but registration of some sort."

Pittsburgh, Pa.

"I do not have any confidence in the mere certification to the effect that the books have been checked and found correct. Do have great confidence when the auditor selected by me goes into the affairs of a company thoroughly and makes an analysis of the earnings, etc., for several years past."

Philadelphia, Pa.

“The merchandise part of the assets of a borrower should be valued by a competent, disinterested party before being approved by an accountant. The risk would materially decrease if borrowers would furnish certified statements, together with an engineer’s opinion and a disinterested appraisal of the merchandise.”

The suggestions contained in the foregoing pages will be heartily approved by accountants. Modern practice requires that the work of the auditor shall be far more thorough than it was in the earlier days of public accountancy.

It is now recognized as part of an auditor’s work that he carefully investigate the manner in which inventories have been taken, the basis of valuations, and the accuracy of the extensions and footings. Similarly, the position and history of each note and account receivable is ascertained; suitable reserves for bad debts are established; and provision is made for all liabilities, whether direct or contingent.

An accountant who would sign a certificate without giving every reasonable attention to these matters would, no doubt, render himself liable to substantial damages in the event of loss resulting from loans made upon the strength of such a certificate.

It will be noted that several bankers draw attention to the necessity for trustworthiness on the part of the accountant. This will be admitted at

once, for an untrustworthy accountant is far worse than none—as an untrustworthy lawyer is a more serious handicap than no lawyer at all when legal advice is wanted. It is undoubtedly true that there have been, and probably still are, many men posing as accountants who are ready to undertake any kind of work and to produce any kind of result that the client may desire. But it is against this sort of nefarious practice that bankers, accountants and note brokers are setting themselves in opposition; and it is no longer impossible for an accountant's reputation to be ascertained. The man who employs a so-called accountant, or the man who accepts the statement of a so-called accountant, not knowing whether the claim to accounting ability be valid or not, has little reason to blame any one but himself for the errors into which he may be led. If the public would use the same care in the selection of accountants as in the choice of lawyers or physicians, the undesirable element claiming membership in the profession would find its occupation gone.

In conclusion it may be said that the accounting profession is entirely at one with bankers in desiring the full development of credit relations.

It is confidently hoped that by the publication of this compilation of opinions and suggestions the cause of true credit will be well served.

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